

Message Text

CONFIDENTIAL

PAGE 01 JAKART 06588 201004Z
ACTION EB-07

INFO OCT-01 AF-10 ARA-06 EUR-12 NEA-10 ISO-00 IO-13
ERDA-05 AID-05 CEA-01 CIAE-00 COME-00 EPG-02
DODE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00
NSC-05 OMB-01 PM-04 USIA-06 OES-07 SP-02 SS-15
STR-04 TRSE-00 ACDA-07 FRB-03 XMB-02 OPIC-03
LAB-04 SIL-01 FEA-01 EA-07 /161 W
-----201011Z 099639 /23

P R 200730Z MAY 77
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC PRIORITY 1211
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
USINT BAGDAD
AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY DHAHRAN
USMISSION EC BRUSSELS
AMEMBASSY JIDDA
AMCONSUL HONG KONG
AMEMBASSY KUALA LUMPUR
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMCONSUL MEDAN
AMEMBASSY OECD PARIS
AMEMBASSY QUITO
AMEMBASSY PARIS UNN
AMEMBASSY SINGAPORE
AMCONSUL SURABAYA
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 06588 201004Z

C O N F I D E N T I A L JAKARTA 6588

E.O. 11652: GDS
TAGS: ENRG, ID
SUBJECT: GOI-CALTEX REACH AGREEMENT ON OIL INCENTIVES

REF: JAKARTA 3739 (NOTAL)

1. GOI AND CALTEX HAVE REACHED AGREEMENT ON ADDITIONAL \$.50/BAREL INCENTIVE FOR OIL PRODUCED FROM NEW WELLS OR FROM SECONDARY RECOVERY. SECRETARY TO PERTAMINA BOARD OF COMMISSIONERS TOLD EMBOFF MAY 18 THAT AGREEMENT WOULD BE SIGNED THAT SAME DAY. BRIEF PRESS ITEM ISSUED FOLLOWING DAY CONFIRMS.

2. ALTHOUGH COMPLETE DETAILS NOT YET RECEIVED, WE UNDERSTAND NEW INCENTIVE WILL BE APPLIED TO EACH BARREL OF OIL EITHER DISCOVERED THROUGH NEW EXPLORATION OR PRODUCED THROUGH SECONDARY RECOVERY PROGRAMS IN OLDER FIELDS. AGREEMENT COVERS FIVE-YEAR PERIOD AND WILL BE INCORPORATED INTO CALTEX'S EXISTING CONTRACT OF WORK ARRANGEMENT. IN EFFECT, \$.50/BARREL WILL BE APPLIED AS CREDIT AGAINST APRIL 1976 REQUIREMENT WHEREBY CALTEX PAID GOI ADDITIONAL \$1.00 FOR EACH BARREL LIFTED. (THIS FEE WAS REDUCED TO .20/BARREL ON OIL BEING SHIPPED TO "FAR AWAY MARKETS IN CARRIBBEAN OF U.S. EAST COAST.) HENCE, CALTEX NET BURDEN WILL NOW BE \$.50/BARREL. WE ARE NOT SURE HOW THIS WILL AFFECT SPECIAL ARRANGEMENTS FOR FAR AWAY MARKETS. ADDITIONAL INCENTIVE WILL RESTORE CALTEX PER BARREL TAKE TO ABOUT \$1.75.

3. CALTEX PARENT COMPANY NEGOTIATORS (BOUCHE OF SOCAL AND MCCALL OF TEXACO) WORKED OUT SETTLEMENT IN SECRET MEETINGS EARLIER THIS WEEK WITH PERTAMINA AND MINES MINISTER SADLI. FINAL AGREEMENT REPRESENTS CLASSIC COMPROMISE: CALTEX RETREATED FROM THEIR MARCH DEMAND CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 06588 201004Z

OF \$.85/BARREL AND PERTAMINA PRESIDENT HARYONO CAME UP FROM GOI'S \$.30/BARREL OFFER. ACCORIDNG TO PERTAMINA SOURCE, CALTEX'S LAST PROPOSAL PRIOR TO SETTLEMENT ASKED FOR \$.65/BARREL.

4. AGREEMENT COMES IN WAKE OF MARCH VISIT BY TEXACO AND SOCAL BOARD CHAIRMEN WHICH CREATED MOMENTUM LEADING TO SETTLEMENT. FINAL APPROVAL MADE BY PRESIDENT SUHARTO WHO HAD DISCUSSED INCENTIVES ISSUE WITH TWO CHAIRMEN AND WAS THUS PERSONALLY AWARE OF CALTEX POSITION.

5. COMMENT: LITTLE BY LITTLE, NORMALITY IS RETURNING TO RELATIONS BETWEEN COI AND OIL COMPANIES. THIS AGREEMENT PROVIDES FURTHER EVIDENCE OF NEW FLEXIBILITY ON PART OF GOI. KEY TO THIS PROGRESS IS ATTITUDE OF INDONESIA'S "ECONOMIC CZAR", MINISTER OF ECONOMIC PLANNING WIDJOJO, WHOSE THINKING APPARENTLY HAS CHANGED CONSIDERABLY AS RESULT HIS RECENT DIRECT EXPOSURE TO OIL EXECUTIVE IN NEW YORK AND BY THE QUESTIONS RAISED

BY DONOR COUNTRIES ABOUT PRESENT AND FUTURE OIL EXPLORATION AT THIS YEAR'S IGGI MEETING (IMMEDIATELY PRIOR TO HIS U.S. VISIT). THERE IS GREATER REALIZATION AT ALL LEVELS OF GOI THAT A) LAST YEAR'S TERMS WENT "TOO FAR" AND B) DEVELOPMENT OF NEW OIL RESERVES WAS NOT GOING TO HAPPEN UNLESS GOI GRANTED ADDITIONAL INCENTIVES. AGREEMENT WITH CALTEX, COUNTRY'S LARGEST PRODUCER AT 830,000 B/D, BRINGS TO CLOSE MORE THAN ONE YEAR'S DISCUSSIONS WHICH OCCASIONALLY WERE COLORED BY BICKERING AND, PERHAPS MOST IMPORTANT, SEEMED TO SET TONE FOR SUBSEQUENT GOI ATTITUDES TOWARD OTHER, SMALLER PRODUCTION-SHARING OIL COMPANIES OPERATING IN INDONESIA.

6. NEW INCENTIVE SHOULD STIMULATE MORE RAPID DEVELOPMENT OF RECENT CALTEX DISCOVERIES IN ONSHORE SUMATRA AREA WHICH COMPANY HAS BEEN SITTING ON PENDING RESOLUTION OF FISCAL TERMS. IT SHOULD ALSO RESULT IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 JAKART 06588 201004Z

GREATER USE OF SECONDARY RECOVERY ON TWO OLDER FILEDS, MINAS AND DURI, BOTH OF WHICH ARE PLAYING OUT RAPIDLY. WHETHER THIS INCENTIVE WILL BE ENOUGH TRIGGER FULL-SCALE SECONDARY RECOVERY PROGRAM, WHICH COULD ADD ROUGHLY ANOTHER 700-800 MILLION BARRELS OF RESERVES, REMAINS TO BE BEEN. END COMMENT.

7. WE HOPE TO SEE CALTEX SHAREHOLDERS REP LATER THIS WEEK AND WILL REPORT COMPANY'S REACTION VIA SEPTTEL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, PETROLEUM PRODUCTION
Control Number: n/a
Copy: SINGLE
Sent Date: 20-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977JAKART06588
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770180-0191
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770537/aaaabffa.tel
Line Count: 149
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0a2e408f-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 JAKARTA 3739
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2440630
Secure: OPEN
Status: NATIVE
Subject: GOI-CALTEX REACH AGREEMENT ON OIL INCENTIVES
TAGS: ENRG, ID, US, CALTEX
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/0a2e408f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009